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Report

drawn up on behalf of the Committee on Budgets (*)

on the ~~inter~~-institutional dialogue on certain budgetary questions

Rapporteur: Mr M. COINTAT

(*) This report was drawn up by the Ad Hoc Working Party of the Committee on Budgets chaired by Mr Cointat and consisting of Mr Lange, chairman of the Committee on Budgets, Mr Aigner, Lord Bruce of Donington and Mr Shaw

In the context of the inter-institutional dialogue which since 1975 has preceded and paved the way for the budgetary procedure, the Committee on Budgets is authorized to submit to Parliament a motion for a resolution on the main budgetary problems under consideration (see in particular the Bureau decision of 27 April 1976).

The ad hoc Working Party of the Committee on Budgets, chaired by Mr Cointat, accordingly drew up seven working documents and a draft motion for a resolution, which were considered and unanimously adopted by the Committee on Budgets at its meeting of 17 May 1977. The working documents have thus now become the explanatory statement of the present report.

Present: Mr Lange, chairman; Mr Aigner and Mr Cointat, vice-chairmen; Lord Bessborough, Mr Clerfaÿt, Mr Dalyell, Mr Martens, Mr Mascagni, Mr Notenboom, Mr Schreiber, Mr Shaw and Mr Würtz.

CONTENTS

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	7
I. General comments	7
II. Summary of conclusions	9
III. Budgetization of loans	13
IV. Budgetization of appropriations for cooperation with third countries	23
V. Commitment appropriations	29
VI. Supplementary budgets	35
VII. Nomenclature	41
VIII. Budgetary transparency	45
IX. A draft timetable for the budgetary procedure by the rapporteur on the budget of the Communities	51

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the inter-institutional dialogue on certain budgetary questions

The European Parliament,

- having regard to the inter-institutional agreement on the joint annual consideration of certain budgetary questions,
 - having regard to the report on the inter-institutional dialogue held in 1976 (Doc. 97/76)¹,
 - having regard to the report of the Committee on Budgets (Doc. 119/77),
1. Approves the conclusions and recommendations of the Committee on Budgets as set forth in the explanatory statement in this report. They may be summarized as follows:
- (a) the Community must rationalise and develop its borrowing and lending activities authorized and supervised by the budgetary authority;
 - (b) Parliament must be consulted in good time on the budgetary implications of cooperation agreements, which should be financed by the Communities' budget in the form of non-compulsory expenditure ;
 - (c) decisions on the opening of new lines for commitment authorizations and on the annual amount of these commitments are to be taken during the budgetary procedure;
 - (d) under a full-scale system of own resources supplementary budgets must become a rare exception mainly as a result of using rectifying budgets ;

¹ OJ No. C 125, 8.6.1976, p. 30

- (e) the budgetary authority should be responsible for amending the nomenclature, chiefly on the basis of the proposed improvements submitted by the Commission in the preliminary draft budget;
 - (f) the structural decentralization of the Commission must be closely monitored to ensure the budgetary consistency and clarity of the activities of this institution;
2. Expects to pursue the inter-institutional dialogue in accordance with these conclusions;
 3. Firmly hopes that this dialogue will enable the institutions concerned to reach agreement on the main questions in time for the opening of the budgetary procedure for the 1978 budget;
 4. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

EXPLANATORY STATEMENT

(Report of the ad hoc working party)

I. GENERAL COMMENTS

Last year, the working party examined a whole series of questions concerning budgetary technique, took position on a number of matters, submitted several recommendations to the other Institutions and proposed a number of amendments to the draft 1977 budget¹.

After the budgetary procedure for the adoption of the 1977 budget had been completed, the Committee on Budgets and the working party felt the need for the latter to continue its work, with two aims in view:

- to improve on the results already obtained in 1976;
- to take account of subsequent developments.

The working party therefore decided to consider in greater depth the same subjects as last year, the aim again being to put forward practical proposals for improvements. These subjects are:

- budgetization of loans
- budgetization of cooperation appropriations
- commitment appropriations
- supplementary budgets
- nomenclature
- budgetary transparency.

The chairman of the working party was instructed to prepare for work in these various fields.

In addition, the working party looked into the practical organization of Parliament's work on the budget, in particular on the basis of several working documents:

¹ See the 'Inter-institutional dialogue on certain budgetary questions (1976)', which contains a full report on the working party's activities.

- working document on the draft speculative timetable (PE 48.121);
- working document on the organization of Parliament's work on the budgetary procedure (PE 48.330) - Rapporteur: Lord Bruce of Donington;
- contribution by the rapporteur on the budget of the European Communities to the drawing up of a time-table for the budgetary procedure (PE 48.678) - Rapporteur : Mr Shaw.

It established for the Committee on Budgets certain principles concerning the time-table and the budgetary procedure for 1978. An informal agreement was reached among members of the working party, the substance of which is given in annex to this report.

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As last year, the working party has conveyed its conclusions to the Committee on Budgets, which will present them to Parliament in the form of a draft report.

It is to be hoped that, as in 1976, the Commission and the Council will make known their reactions to this report in good time and that it will be taken into account when the preliminary draft and draft budgets are being drawn up.

The draft budget in particular will be considered in the light of the conclusions of the report. As it did last year, the working party may submit draft amendments to the Committee on Budgets with a view to the practical implementation of the conclusions drawn in its report.

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Membership of the working party differs from that of last year, since the rapporteur on the 1977 budget has joined, while several former members have left the working party and the Committee on Budgets.

The working party currently consists of:

- Mr COINTAT (rapporteur on the 1976 budget), chairman;
- Mr LANGE (chairman of the Committee on Budgets);
- Mr AIGNER (rapporteur on the 1975 budget);
- Mr SHAW (rapporteur on the 1978 budget);
- Lord BRUCE OF DONINGTON (rapporteur on the 1977 budget).

II. SUMMARY OF CONCLUSIONS

The following quotation from the working party's report for 1976 sets out the objectives:

'In considering the conclusions of the various working documents, it is important to bear in mind the objectives which the working party set itself.

In view of the radically changing character of the Community structure, the nature and function of the budget must be regularly adapted to new political and financial realities.

This must be done by the budgetary authority itself, with the assistance of the Commission. It is right and indeed essential that the two institutions constituting the budgetary authority should be able to exchange information on a virtually permanent basis and confer together on questions of current importance to the Community. Ideally, the dialogue on matters of principle should be planned so as not to coincide with the main events in the budgetary calendar, i.e. when the day-to-day reality of the debate on the draft budget inevitably takes precedence over other considerations. In this way, a good many difficulties and misunderstandings would be avoided during the budgetary procedure itself.

In this connection, the working party's task was to undertake a thorough examination of certain questions which, though apparently of a technical nature, are in fact of fundamental importance for the development of the Community budget. These questions were not chosen at random; they had of necessity to be examined by the working party because of their current importance and their implications for the nature of the budget.

In the course of its study, the working party constantly bore in mind the three aims which Parliament has consistently sought to achieve, namely:

- to adapt changes in the budgetary technique to the necessary strengthening of its powers in this area;
- to secure compliance with the fundamental principles of budgetary law which are generally recognized in the Member States and which confirm the ultimate right of Parliament to authorize and control expenditure;
- to ensure that the budget, which must be a working tool as closely adapted as possible to Community needs, is regularly reviewed.'

SUMMARY

1. Budgetization of Loans

- The creation of a true Community capital budget must be postponed, although it remains a desirable long-term aim;
- The submission of annual budgetary documents must be phased in to ensure the detailed presentation of planned borrowing and lending programmes;

- An additional budgetary line must be included authorizing and setting a ceiling on borrowings by the European Export Bank;
- The operating and investment budgets of the ECSC must be presented as one and the ECSC budget considered in conjunction with the general budget;
- The annual financial programme of the EIB must be presented within the framework of the preliminary draft budget;
- Parliament must be kept permanently informed of progress in the implementation of the financial programme (borrowings and loans) laid down in the budget, and in particular, the launching of the main transactions;
- The non-compulsory nature of borrowing and lending operations whose annual volume is fixed by the budget and not by basic regulations must be established;
- The Commission must be asked to embark on a rationalization programme to develop a genuine overall medium-term policy for borrowing and lending.

2. Budgetization of financial cooperation appropriations and the EDF

- The token entries in the 1978 budget must be replaced by the actual amounts of the appropriations;
- The Council and the Commission must formally undertake to budgetize the next EDF;
- A detailed budgetary presentation of appropriations must be given for each of the financial agreements signed;
- Commitment appropriations must be created to ensure the multi-annual financing of these agreements;
- The guarantees given by the Community to loans granted by the EIB must be budgetized;
- The European Parliament must be consulted in good time on the financial implications of agreements currently being negotiated;
- The non-compulsory nature of cooperation expenditure must be established.

3. Commitment appropriations

- Lines of commitment appropriations should be opened by the budgetary authority, preferably on the basis of a prior inter-institutional agreement;

- Starting with the 1978 budget, the presentation of commitment appropriations must be reviewed, should the need arise;
- The machinery of Article 203(8) (rate/margin) must not be applied to commitment appropriations; the institutions forming the budgetary authority must agree on them.

4. Supplementary budgets

- Greater use must be made of provisional appropriations and unavoidable new items of expenditure must be grouped together in a single supplementary budget towards the middle of the financial year;
- The notion of rectifying budget must be used for substantial modifications to the initial estimates, particularly by means of transfers of appropriations not affecting total expenditure;
- Provisional appropriations must be entered and use made of the rectifying budget to cater for the financial implications of the annual decisions on the agricultural prices.

5. Nomenclature

- Appropriations proposed in the preliminary draft budget must be included in the draft budget;
- Changes or additions to the nomenclature must be made by the budgetary authority;
- Suggestions must be made for practical improvements in respect of research appropriations, the Regional Fund and Chapter 9.

6. Budgetary transparency

- Para-Community bodies must not be set up;
- The decentralization of agencies financed by a global subsidy must be strictly limited and the budgetary authority must retain the right of inspection of the estimates of such agencies;
- The notion of decentralized agencies financed through ordinary budget entries must be rationalized;
- Practical suggestions for the 1978 budget: appropriations earmarked for the University Institute of Florence must be budgetized, the European Agency for Trade Cooperation must be set up as a decentralized agency but no new para-Community organizations (Fecom) may be set up.

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Once the budgetary authority has been briefed by the Commission, it is essential that it should reach agreement on these important questions as a matter of urgency. Such an agreement would do much to facilitate the debate on the 1978 draft budget and its approval and would keep alive the spirit of pragmatic cooperation which prevailed throughout the 1977 budgetary procedure.

III. BUDGETIZATION OF LOANS

BUDGETIZATION OF LOANS

1. Having affirmed in principle, in July 1975¹, the need to budgetize Community borrowings and lendings, Parliament used its right of amendment to enter in the 1976 and 1977 budgets two categories of loans administered or proposed by the Commission (Community and Euratom loans).

In 1976 the working party was chiefly concerned with the form this budgetization should take².

2. The main task for 1977 is to improve the presentation which has been adopted and also to consider several allied questions:

- the extension of budgetization to include the Community's other borrowing and lending activities,
- consultation of the budgetary authority on borrowing/lending operations carried out during the financial year,
- the budgetary authorization procedure (Article 203(8)) to be applied to these operations,
- more extensive use of borrowings as part of the Community's own resources.

I. IMPROVING THE FORM OF BUDGETIZATION

3. In the 1976 budget Parliament included a heading with a mere token entry for Community and Euratom loans.

4. In the 1977 budget Parliament has considerably improved the presentation of these two types of loan:

- In the budget itself the token entry has been supplemented by a threefold commentary which
 - represents the annual authorization to raise and grant loans
 - fixes the maximum annual amount of these operations
 - confirms the guarantee represented by the budget to the Community's creditors.

¹ Opinion on a Commission proposal concerning Euratom loans. Draftsman for the Committee on Budgets: Mr Lagorce (OJ No. C 157/35, 14 July 1975)

² See Doc. 97/76, pp. 14 to 23 and PE 45.743/rev. pp. 4 to 10

This commentary is binding,

- a document annexed to the budget (Annex III) gives details of borrowing and lending operations.

5. During the vote on the 1977 budget the Commission officially accepted this form of budgetization, whereas the Council, while welcoming the principle of budgetization, felt that the details should be considered as part of the review (now under way) of the Financial Regulation. In its proposed amendments to the Financial Regulation and in particular Articles 1(1) and 16(3) thereof (Doc. 166/76), the Commission proposes a form of budgetization similar to that favoured by Parliament¹.

6. Certain improvements have still to be made to the form of budgetization used in the 1977 budget:

- no amendments to the budget itself would seem to be necessary (token entry/commentaries),
- at present it would appear impossible to amend the annex; the Committee on Budgets had originally proposed the introduction of an effective 'capital budget' of the Communities², covering all borrowing/lending operations, which would have been subject to a separate vote. This capital budget will have to be introduced at some future date but for the present the Community's financial activities are too disparate for them to be grouped together in this way,
- the introduction (Volume 7) to the preliminary draft budget must be extended as far as the presentation of the Commission's proposals on borrowing/lending operations is concerned:
 - in part I of the introduction the Commission should provide a 'political' justification for the proposed annual volume of its financial operations,
 - in part II it should provide all the technical explanations relating to these operations.

¹ See Parliament's resolution on the Financial Regulation (Doc. 469/76)
Rapporteur: Mr Shaw

² See Parliament's opinion on Euratom loans (PE 40.927, p.6) Draftsman:
Mr Lagorce

11. EXTENSION OF BUDGETIZATION

7. At present only Community and Euratom loans are entered in the budget¹.

The Commission intends to raise loans in other sectors: industrial (aeronautical), social, regional, etc. It has recently proposed the setting up of a European Export Bank, whose budgetization must be considered.

The other existing borrowing/lending operations are carried out either within the specific context of the ECSC Treaty or independently by the EIB.

Beginning in 1978 certain measures must be taken to ensure the progressive implementation of the principle that all the Community's financial operations should be recorded in the budget in an appropriate manner.

8. - European Export Bank (EEB): Chapter 49 of the 1977 budget already contains four articles relating to the bank's capital, its guarantee, subsidies for balancing the budget and interest subsidy grants on loans².

In the 1978 budget the budgetization of the bank's activities should be brought into line with the form used for Community and Euratom loans; provision should therefore be made for an additional article with a token entry, representing the annual authorization given to the bank to borrow/lend by the budgetary authority and fixing the maximum total volume of its operations for the financial year in question. This form of budgetization would, moreover, allow the bank the necessary administrative freedom.

9. - ECSC: The Committee on Budgets and Parliament envisaged the possibility of budgetizing the financial activities of the ECSC³, whose annual investment budget exceeds 1,000 m u.a.

However, the budgetary mechanisms laid down in the ECSC Treaty are very different from those applicable to the EEC and the EAEC; Article 49 provides in particular for the Commission/High Authority to adopt independently both the operational budget (levy) and the investment budget of the ECSC. These budgets are in fact merely estimates without binding force, except as far as the rate of the levy is concerned; they remain completely separate from the general budget except for the ECSC's administrative budget, which is entered in the Commission's budget under revenue (18 m u.a.).

¹ The latter are still at the stage of a proposal for a regulation (dated 18 December 1974)

² It should be noted, however, that the draft basic regulation setting up the bank was submitted to the Council on 17 February 1976 - and has not yet been adopted.

³ Doc. 97/76, p.16, point 9 and p.23, point 28(h). It should be pointed out that the European Parliament requested this budgetization when it adopted the Financial Regulation of 25 April 1973; see paragraph 7 of the resolution of 14 March 1973 (OJ No. C 14/26, 27 March 1973).

Although the question of the merging of the ECSC and EEC Treaties should not be prejudged, it would nevertheless be useful to seek a means of bringing the ECSC budgets closer into line with the general budget of the Communities: this would make for greater budgetary clarity and some integration of ECSC and EEC activities and would give the budgetary authority (and Parliament in particular) a more comprehensive picture of Community finances¹.

Beginning with the 1978 budget, this alignment could be introduced by means of the following measures:

- merging the operational and investment budgets into a single ECSC budget to be submitted to the budgetary authority for its opinion;
- coordinated adoption of the ECSC budget and the general budget: if the budgetary authority had no comments to make, the ECSC budget could be adopted by the Commission after the first reading (October) - otherwise it would be referred back to the Commission for possible amendments. It would again be submitted to the budgetary authority for a second reading (December) and then adopted by the Commission. It is particularly important that the rate of the levy be adopted at the same time as the total revenue of the general budget;
- after its adoption, publication of the ECSC budget in the same form, and if possible in the same document, as the general budget;
- consideration of the ECSC budget in the introduction (Volume 7) to the general budget: in particular the Commission should justify its proposals with regard to ECSC financial operations².

10. - European Investment Bank: The Committee on Budgets has also considered the advisability of an alignment at budgetary level of the bank's financial operations with those of the Commission³. In view of their independent and specific nature, the budgetization of the bank's

¹ In its opinion on the fixing of the levy for the 1977 financial year, Parliament noted the growing inadequacy - or stagnation - in the ECSC budget and requested the Commission 'to undertake a thoroughgoing review of the role of this budget in relation to the ECSC investment budget and the general budget of the European Communities' (OJ No. C 6/52, 10 January 1977) - Rapporteur: Mr Terrenoire

² For the first time Parliament has given a discharge to the Commission for the implementation of the 1975 ECSC budget, thereby bringing it into line with the general budget as regards control (Doc. 567/76)
Rapporteur: Mr Gerlach

³ Doc. 97/76, p.16, point 8.

activities is neither possible nor even desirable. However, it might be possible to include in the introduction (Volume 7) to the preliminary draft budget, an annual presentation by the Commission of the bank's proposed activities for the financial year under consideration; this presentation would have the advantage of completing the necessary overall view of all the Community's operations and would perhaps facilitate their coordination¹.

III. INFORMATION GIVEN TO PARLIAMENT ON BORROWING AND LENDING OPERATIONS

11. The regulation setting up the mechanism for Community loans stipulates that the Council must authorize each borrowing/lending operation, whereas the draft regulation concerning Euratom loans accords this right to the Commission².

The budgetary authority has formally fixed the total volume available for these decisions and should, therefore, be kept informed about the implementation of the annual borrowing/lending programme. This chiefly concerns Parliament, since the regulations lay down that the Council should play a major role in the taking of the actual decisions on borrowing/lending. As they are limited in number and of considerable financial volume, Parliament could be informed in advance of these operations.

As regards the other borrowing activities considered above (EEB, ECSC, EIB), the frequency of the operations concerned makes it impossible for Parliament to be informed in advance, but an annual statement could be included in the preliminary draft budget (Volume 7, introduction).

IV. BUDGETARY CLASSIFICATION

12. Although it has not made a general statement on the classification of loans, the Commission has always considered Euratom loans as non-compulsory expenditure, but has hitherto refrained from classifying Community loans.

¹ See opinion of the Committee on Budgets on Euratom loans (PE 40.927) p.4/5, point 5 - Draftsman: Mr Lagorce

² The development of the Community's financial activities (see below) makes it desirable for these procedures to be harmonized.

13. The Council has not given its opinion on this matter and has not challenged the amendments voted by Parliament on Euratom and Community loans.

14. Parliament has always felt that loans are non-compulsory and that it should thus have the last word on their authorization¹: they are after all operations determined by considerations of expediency as regards both the sum and conditions involved.

15. In practical terms, Parliament's right to have the final word on loans means that in the last resort it can authorize or refuse borrowing/lending operations for the financial year under consideration and fix the total sum which these operations may involve, without its decision being restricted by the maximum rate or the margin, which do not apply to this type of financial activity.

16. However, it should be pointed out that the maximum annual sum outstanding in Euratom and Community loans is laid down in the basic regulations and that Parliament respected these regulations when fixing the total for the 1977 budget. Nevertheless, Parliament has always been opposed to the financial volume of an action being fixed in advance by a regulation, and this attitude must also apply to loans. In future, Parliament should therefore aim at establishing the annual volume of borrowings/lendings by budgetary means. For example, the European Export Bank's maximum outstandings should in the near future be fixed by the budget.

V. DEFINITION OF A GENERAL LOAN POLICY

17. Parliament considers that 'borrowing on the capital market undoubtedly provides a method of financing which is both necessary and desirable for certain Community policies:

- necessary, because the limitations of specifically budgetary resources are becoming increasingly obvious especially as a result of the difficult economic situation in the Community today;
- desirable, because loans provide a flexible and modern technique, particularly suited to financing the type of industrial investment in which the Community intends to play an increasing part'².

18. However, if financial operations are to be increased, efforts must be made to coordinate and rationalize the various mechanisms already in existence or under consideration.

¹ Doc. 97/76, p.9, point 1(c) and p.23, point 28(e)

² Doc. 97/76, p.15, point 4.

19. With this in mind and on the initiative of the Committee on Budgets¹, Parliament requested the Commission to draw up a report on its borrowing and lending policy. In this report the Commission gives a brief summary of its 'general principles' in this question², which reveal an economic rather than a budgetary approach to loans; the Commission calls for some diversification of its means of financial intervention with a view, in particular, to carrying out limited borrowing/lending operations on the best possible banking terms.

20. Parliament's attitude is somewhat different in that it advocates regular and coordinated recourse to the capital market with a view to financing Community participation in medium or long-term investments³. Moreover, since the publication of the above report, it seems that the Commission has drawn closer to Parliament's point of view, since it states in its triennial financial forecasts 1977-78-79⁴:

'However, the various Community institutions will have to examine the question of the respective roles of the budget and the borrowed funds. There is no evidence at all to show that it will be necessary to continue to pay out non-repayable amounts from the own resources levied by the Communities. Their lending capacity is large and can be beneficially used to finance certain operations'.

21. It would, therefore, be appropriate within the context of the 1978 budget, to ask the Commission how it views - in budgetary terms - the rationalization and development of its borrowing and lending policy.

¹ Opinion on the Euratom loans, PE 40.927, p.8, point 4 Draftsman: Mr Lagorce

² See pp. 7 to 10 of the report (COM (76) 111 of 17 March 1976)

³ See the report on the 1977 draft budget - Rapporteur: Lord Bruce of Donington (Doc. 363/76, p.23, points 29 and 30)

⁴ COM (76) 200, p.71.

FINANCIAL VOLUME OF COMMUNITY BORROWINGS/LENDINGS

FOR THE 1976 FINANCIAL YEAR

EURATOM	(500 m u.a.) ¹
Community loans	1,160 m EUA ²
ECSC	1,030 m EUA
EIB	749 m EUA
Total:	<u>2,939 m EUA</u> =====

¹ Potential volume

² Equivalent to \$ 1,300 m.

IV. BUDGETIZATION OF APPROPRIATIONS FOR COOPERATION

WITH THIRD COUNTRIES

BUDGETIZATION OF APPROPRIATIONS FOR COOPERATION WITH THIRD COUNTRIES

1. Parliament asserted the principle of the need to budgetize cooperation appropriations when delivering its opinions on the agreements concluded with Malta and the Maghreb countries¹; in 1976, the Working Party dealt mainly with the principle of this budgetization and the form it would take²; when the 1977 budget was adopted, Parliament introduced, by amendment, two budget lines 'reserved' for the EDF (Chapters 90 and 91) and a token entry (Article 962) for financial protocols with non-member countries.

2. For the 1978 budget, the form of this budgetization should be improved and the procedure for consultation of Parliament on the financial implications of the agreements should be reviewed. The problem of the classification of this expenditure calls for some explanation.

1. IMPROVEMENT OF THE FORM OF BUDGETIZATION

3. In the 1976 budget, Parliament had attempted to open a line for expenditure resulting from the cooperation agreements with the Maghreb countries and Malta, but the Council had opposed it.

4. In the 1977 budget, the Council accepted the introduction of an Article (Article 962) entitled 'Financial cooperation with certain non-member countries' intended to permit payment of the non-EIB financial aid provided for in the financial protocols. Although the Parliament had originally hoped to enter actual appropriations (payment and commitment) under this article, it finally adopted the Council's proposal for a token entry. As regards the EDF, Parliament, in the remarks, reserved two chapters (90 and 91) for the future budgetization of appropriations, thus overriding the objections of the Council, which felt that such an entry was not appropriate.

5. The following appear to be possible improvements to this budgetization for the 1978 budget:

¹ For Malta, see OJ C 100/8, 5.4.1976, (paragraph 6): draftsman for the Committee on Budgets; Mr Bangemann for the Maghreb, see OJ C 259/15, 12.10.1976 (paragraph 11), draftsman for the Committee on Budgets: Mr Terrenoire

² Doc. 97/76 pp 29 - 88 and PE 45.743/rev, pp 10 - 12.

a) the entering of actual figures

6. Budgetization clearly only makes sense if it involves the inclusion of actual appropriations. In 1978, the majority of the cooperation agreements signed by the Community with the countries of the Mediterranean will enter into force and the appropriations relating to these agreements will have to be entered in the budget.

7. Although the Council has officially accepted the principle of the budgetization of cooperation appropriations, certain delegations link it to the adoption of the new European unit of account. The EUA will probably be used for the 1978 budget, but if this were not the case, Parliament should table amendments entering actual appropriations under the heading of financial cooperation¹.

8. As regards the EDF, it is difficult to see how true budgetization of the appropriations could be proposed during the present Lomé Convention. It would, however, be useful to obtain from the Commission and the Council a formal commitment to enter appropriations relating to the next Convention in the general budget.

b) Nomenclature

9. The presentation of Chapter 96 should be revised to take account of improvements to the budgetization of cooperation appropriations. In particular, a separate heading should be provided for each of the financial agreements. This might be done as follows:

Chapter 96	Cooperation with non-member countries
Article 960	Financial cooperation with certain non-member countries
Item 9600	Financial cooperation with Malta
Item 9601	Financial cooperation with Algeria
etc.	
Article 961	Guarantee by the EEC for the loans granted to certain non-member countries by the European Investment Bank ²
Article 962	Emergency aid to Portugal
Item 9620	Aid towards the payment of interest on loans granted by the EIB to Portugal

¹ In this case, a bridging mechanism might be used - as in the case of aid to Portugal (Article 960 of the 1977 budget) - to convert aid appropriations, which are expressed in the financial protocols in European units of account, into budgetary units of account.

² see paragraph 12 below

Item 9621	Guarantee by the EEC of loans granted to Portugal by the EIB
Article 963	Guarantee by the EEC of loans granted to Yugoslavia by the EIB

c) Commitment appropriations

10. In the 1977 budget the Commission had proposed - without success - the entry of commitment appropriations under the financial protocols. Parliament had supported this proposal but the interim financial regulation which laid down the definitive list of commitment appropriations excluded cooperation appropriations.

11. For the 1978 budget, the budgetary authority itself will decide on the creation of commitment appropriations and Parliament will have to try to ensure that such appropriations are entered. It seems legitimate to allow appropriations earmarked for the financing of investment projects on the basis of multi-annual aid programmes to be committed over several financial years.

d) Guarantee for EIB loans

12. As in the case of the EDF and the precedent created by aid to Portugal and Yugoslavia, the Community will probably decide to guarantee loans granted by the EIB to countries with whom the EEC has signed a cooperation agreement.

It is desirable for this guarantee to be based on the budget of the Communities and to be entered in it in the form of a single global article¹.

II. CONSULTATION OF PARLIAMENT ON THE FINANCIAL IMPLICATIONS OF AGREEMENTS WITH NON-MEMBER COUNTRIES

13. The budgetary implications proper of financial cooperation agreements is considerable: 662 m EUA over a period of five years². It is, therefore, necessary for Parliament to be consulted in an appropriate manner and in good time on the conclusion of such agreements.

14. The procedure followed at the moment does not, however, really allow Parliament adequate time to consider the financial implications of these agreements, since it delivers its opinion after completion of the formal signing, by which time the contents of the agreements have been generally accepted for several months.

¹ see Article 961 in paragraph 9 above

² see annex

15. This procedure is currently being reviewed by Parliament. The present document represents an opportunity to underline the particular need for genuine prior consultation on the budgetary implications of financial cooperation agreements concluded by the Community; this would facilitate the voting of the corresponding appropriations when the budget is adopted (see § 18 below).

III. BUDGETARY CLASSIFICATION

16. The Commission had originally proposed that cooperation appropriations be classified as non-compulsory expenditure¹, but during the budgetary procedure it proposed that they be classified as compulsory expenditure. The Council has always advocated their classification as compulsory expenditure.

17. Parliament decided to classify them as non-compulsory expenditure and, when the 1977 budget was voted, amended the article on the financial protocols. This expenditure may be considered as non-compulsory since:

- the fixing of the amount involved, which precedes the signing of the agreements, is done purely on the basis of expediency;
- the agreements themselves only provide for an overall sum to be distributed as commitment and payment appropriations over several budgetary years according to criteria to be determined by the budgetary authority.

18. However, Parliament obviously recognizes the binding nature of international agreements concluded by the Community and will not modify the total amount provided by these agreements - especially if it has been properly informed beforehand. There are nevertheless some circumstances under which the budgetary authority might:

- cancel appropriations on political grounds (the agreement with Greece constitutes a precedent here);
- increase them, if it appears that the amounts provided for by the agreements are inadequate to cope with new circumstances.

¹ see Volume IV of the preliminary draft budget for 1977, page 313. However, it should be noted that the Commission had proposed - in the preliminary draft budget for 1976 - that aid appropriations for the Maghreb countries and Malta be classified as compulsory expenditure.

ANNEXEXTERNAL FINANCIAL COMMITMENTS OF THE COMMUNITY (MEUA)

Recipient countries	Final amount authorized by the Council		
	Budget MEUA	EIB MEUA	TOTAL MEUA
<u>PORTUGAL</u>			
- emergency aid	30	150	180
- financial protocol	30	200	230
Total	60	350	410
<u>MAGHREB</u>			
- Algeria	44	70	114
- Morocco	74	56	130
- Tunisia	54	41	95
Total	172	167	339
<u>MALTA</u>	10	16	26
<u>MASHREK</u>			
- Egypt	77	93	170
- Syria	26	34	60
- Jordan	22	18	40
- Lebanon	10	20	30 (1)
Total	135	165	300
<u>ISRAEL</u>	-	30	30
<u>GREECE</u>	55	225	280
<u>TURKEY</u>	220	90	310 (1)
<u>CYPRUS</u>	10	20	30 (1)
<u>YUGOSLAVIA</u>	-	50	50
Grand Total	662	1113	1775

¹ Negotiations nearing completion

V. COMMITMENT APPROPRIATIONS

COMMITMENT APPROPRIATIONS

1. In the 1977 budget, the use of commitment appropriations was substantially extended - in particular on the basis of an interim financial regulation¹; the institutionalization of the system of commitment appropriations forms part of the overall review of the financial regulation currently taking place in the Council².

2. Generally speaking, Parliament tends to favour the increased recourse to commitment appropriations provided that this does not detract from the annuality or the clarity of the budget³.

3. While the Commission, the Council and Parliament were able to reach a pragmatic, provisional agreement in respect of the 1977 budget on the mechanisms applicable to commitment appropriations, several problems will inevitably appear - or reappear - during consideration of the 1978 budget, in particular:

- creation of new lines of commitment appropriations,
- formal presentation of these appropriations,
- budgetary authorization procedure to be applied (Article 203(8)).

I. CREATION OF NEW LINES OF COMMITMENT APPROPRIATIONS

4. A twofold problem arises: which authority is competent to create these lines? In what areas of expenditure is it desirable to do so?

5(a) Competent authority: according to the Financial Regulation of 25 April 1973 (Article 1 (3)) the budgetary authority is competent to create commitment appropriations during the budgetary procedure; the interim Financial Regulation - valid for the 1977 budget only - grants this right to the legislative authority and fixes a limitative list of lines on which commitment appropriations may be entered; the proposed overall amendment of the Financial Regulation provides that commitment appropriations should be created 'during the budgetary procedure' (Article 1 (3), subparagraph 4)⁴.

¹Financial Regulation of 21 October (OJ L 333/24) and of 21 December 1976 (OJ L 362/52)

²See Article 6 of the Commission proposal (Doc. 166/76)

³See Doc. 97/76, pages 39 to 48

⁴See Parliament's resolution on the Financial Regulation (Doc. 469/76) rapporteur: Mr Shaw

6. Clearly, if the overall review of the Financial Regulation is not completed in time for the vote on the 1978 budget, the provisions of the Regulation of 25 April 1973 will still apply - unless the Council decides to adopt a new interim Financial Regulation explicitly limiting the lines concerned.

7(b) Sectors concerned: given the somewhat vague nature of the procedure by which the budgetary authority decides to enter commitment appropriations during the budgetary procedure, it might be in the interests of the Commission, the Council and Parliament to reach a preliminary agreement on the lines concerned (by analogy with the procedure adopted in 1975 in an attempt to settle the problem of the classification of expenditure before the debate on the 1976 budget).

8. It is too early to draw up a list of the areas to which commitment appropriations might, in the opinion of the European Parliament, be applicable; it is worth noting, however, that in October 1976 Parliament proposed certain sectors, including financial cooperation with the developing countries (Article 962).

It would, on the other hand, certainly be helpful if the Commission were to propose general criteria to be met by commitment appropriations - for example:

- investment and/or research operations,
- programmes implemented over at least two years,
- projects with substantial financial implications.

II. PRESENTATION OF COMMITMENT APPROPRIATIONS

9. During the overall review of the Financial Regulation and during the vote on the 1977 budget, the presentation of commitment appropriations gave rise to many difficulties within Parliament itself and in its Committee on Budgets. These problems related in particular to:

- the existence of commitment appropriations for the current financial year,
- the binding nature of the multiannual total fixed each year,
- the entry of commitment appropriations on the left-hand page of the budget.

10. It was finally decided - by common agreement between the three institutions concerned - to regard the presentation adopted for 1977 as provisional and experimental; conclusions will have to be drawn from this experiment in good time for the adoption of the 1978 budget.

11. This means that the Commission should include precise proposals in its preliminary draft on the presentation of commitment appropriations - taking into account, where necessary, the provisions of the Financial Regulation now being amended.

III. BUDGETARY AUTHORIZATION PROCEDURE APPLICABLE TO COMMITMENT APPROPRIATIONS

12. Article 203 (8) of the EEC Treaty makes no distinction between commitment appropriations and payment appropriations and certain of its provisions (in particular those relating to expenditure and the maximum rate) indicate that it refers to payment appropriations. Consequently, there is some doubt as to which mechanism should be applied to voting on commitment appropriations; only pragmatic solutions were found to this problem during the adoption of the 1976 and 1977 budgets.

13. Last year the Commission stated in the preliminary draft budget that it would be impossible to apply Article 203(8) to commitment appropriations owing to their multiannual nature and proposed that the budgetary authority should reach agreement on this matter¹.

14. The Council did not take a decision on this and adopted a highly pragmatic attitude. It proposed, as Parliament's margin for manoeuvre, an overall total of 120 m u.a. relating to both payment and commitment appropriations - excluding thereby the three new sectors in which it approved the creation of commitment appropriations; on the question of principle, it proposed that recourse should be had to the conciliation procedure as part of the current review of the Financial Regulation.

15. Parliament has, for its part, refused to include commitment appropriations in the calculation of its margin for manoeuvre² while affirming its

¹ Preliminary draft budget 1/77, Volume 7, page 86: 'The Commission is of the opinion that the 'maximum rate' procedure - designed to apply to annual expenditure, and hence chiefly to operating expenditure - would be difficult to apply to appropriations for commitment relating to multiannual operations: it therefore considers that the two holders of Budgetary Authority (the Council and the European Parliament) will have to reach an agreement on the exercise of budgetary power on the appropriations for commitment'.

² Paragraph 16 of the supplementary report on the draft budget for 1977: 'observes, as a result of Article 203 of the EEC Treaty, which envisages on the one hand the principle of annuality of the budget, and on the other the application of a statistical annual rate of increase to non-compulsory expenditure, that the commitment authorizations cannot under any circumstances be taken into consideration in the calculation of the margin for increase available to the European Parliament'. (OJ C 6/80 of 10 January 1977)

willingness to investigate with the Council and the Commission the possibility of a common, lasting interpretation of the commitment appropriations system.

16. In March 1977 the Commission forwarded to Parliament its views on the application of Article 203 to commitment appropriations. In this document (Doc. 17/77) it suggests that the three institutions concerned should adopt a joint declaration stating that the mechanism of Article 203 (classification, assessment basis, maximum rate and margin for manoeuvre) applies automatically to commitment appropriations.

17. Contrary to the Commission's view, the Working Party considers that the application of the inflexible rules laid down in Article 203(8) to commitment appropriations has no legal basis and would lead, moreover, to an unjustifiable curtailment of Parliament's budgetary powers. The Working Party's arguments are as follows :

- (a) commitment appropriations are not intrinsically non-compulsory expenditure subject to the procedure laid down in Article 203(8) : in fact, some commitment appropriations are classed as compulsory expenditure (such as EAGGF Guidance);
- (b) there are no commitment appropriations but only commitment 'authorizations' which involve no actual expenditure but legal obligations of a contractual nature;
- (c) These authorizations are moreover multiannual , which means that no limit can be set on them by applying an annual index rate;
- (d) on the basis of Article 198 of the Treaty, only payment appropriations must be covered by corresponding resources (in particular, in 1978 by Community VAT) and therefore they alone represent true estimates of expenditure.
- (e) the use of new terms (such as distinct or non-distinct appropriations) not based on the specific provisions of the Treaties or the Financial Regulation should be avoided.

18. The Working Party therefore proposes that the following system be applied to commitment appropriations :

- (a) fixing by joint agreement between Council and Parliament of commitment appropriations as regards both total amount and multiannual spread;
- (b) the consequent non-application to the fixing of a new rate of the rules laid down in Article 203(8), which are solely concerned with the classification of expenditure, the maximum rate of growth, the right of amendment and Parliament's 'margin for manoeuvre'.

VI. SUPPLEMENTARY BUDGETS

SUPPLEMENTARY BUDGETS

1. On numerous occasions, Parliament has expressed its opposition to the practice of supplementary budgets and recently produced a detailed and reasoned critique of the practice¹. If the Community is to have financial autonomy and - more especially - if Community VAT is to be introduced on 1 January 1978, changes - during the financial year - in estimates of expenditure and hence of revenue will become even more undesirable.

2. It is therefore advisable to apply the Working Party's observations to 1978 and to consider in depth:

- the exceptional nature of supplementary budgets,
- the concept of the amending budget,
- the case of EAGGF appropriations.

I. EXCEPTIONAL NATURE OF SUPPLEMENTARY BUDGETS

3. During its consideration of the proposed changes to the Financial Regulation, Parliament adopted an amendment confining supplementary budgets to 'unavoidable, exceptional and unforeseen' circumstances².

4. This means that the original annual budget must be a genuine estimate and that appropriations must be entered for all foreseeable expenditure, even when the legal basis of the activities concerned has not been fully specified by the time the budget is adopted. Moreover, it would seem that during the vote on the 1977 budget, the Council largely supported this view.

5. It also means that the technique of provisional appropriations (Chapter 100) and reserves for contingencies (Chapter 101) must be more widely used; for 1977 the total amount of such appropriations was less than 3.5% of the overall budget, while one might easily conceive of an 'operating reserve' of the order of 5%.

¹ Doc. 97/76, pp. 57 ff. - draftsman: Mr Aigner

² Doc. 469/76, p. 20 - rapporteur: Mr Shaw

6. Finally, it means that the 'unavoidable' supplementary budgets during a given financial year should be amalgamated so that recourse to more than one supplementary budget is only very exceptional. Such a supplementary budget should not, save in exceptional circumstances (e.g. Friuli), be submitted during the first or last quarter of the financial year, but rather at the halfway point (May-June).

II. THE CONCEPT OF THE RECTIFYING BUDGET

7. When reviewing the Financial Regulation, Parliament again endeavoured to clarify the concept of the amending budget and its importance¹.

8. It would appear that the rectifying budget does not affect the revenue required to cover expenditure in the financial year. Moreover, it enables the budgetary authority to give formal authorization for any significant change in the original allocation of appropriations - even when the overall budget is not affected. This is particularly the case when a decision on a regulation arises during a financial year or when changing circumstances affect the original forecasts and the allocation of appropriations has consequently to be revised. It is legally and politically desirable for the budgetary authority itself to take responsibility for alterations to the budgetary estimates it has previously made.

9. The amalgamation and timetabling requirement applicable to supplementary budgets must apply equally to amending budgets.

III. THE CASE OF EAGGF CREDITS

10. Agricultural expenditure - and mainly that occasioned by the annual price reviews - is traditionally the chief cause of supplementary budgets. On this point Parliament recently took the view that:

- the annual fixing of prices (as also any changes in the estimates relating to compensatory amounts and the financial implications of changes in market regulations accompanying the fixing prices) should be accompanied by a draft amending budget²,

¹ Doc. 469/76, p.20 '... particularly to enable policies to be adapted, the Commission may submit preliminary draft amending budgets which would not alter the total amount of the annual budget and to which would be attached the necessary corresponding regulations' - Rapporteur: Mr Shaw.

² Resolution on the fixing of agricultural prices 1976/77 (draftsman of the opinion of the Committee on Budgets: Mr Cointat), paragraph 3: 'Takes the view that it is essential, if Parliament's budgetary powers are not to be circumvented or infringed, for estimates of new expenditure to be included in the annual budget and for the procedure for fixing agricultural prices during the year to be linked with that for the establishment and adoption of an amending budget' (OJ C 53/25 of 8.3.1976)

- the financial implications of changes in price and associated measures should be the subject of an overall reserve under Chapter 100 of the original annual budget so as to avoid any increase in expenditure - and hence in revenue - during the financial year¹.

11. Based on these two requirements the following system might be introduced for the entry in the budget of agricultural expenditure:

1. Entry in the draft annual budget of as 'realistic' a reserve as possible (allowing for the foreseeable financial implications of the price review, the trend in compensatory amounts and changes in market regulations),
2. A facility for rectifying the amount of this reserve in the draft budget (by rectifying letter) up to the time of its first reading by Parliament (end of October)²,
3. Submission of a draft amending budget following the annual decisions on agricultural prices and associated measures. This amending budget should enable:
 - the provisional appropriations included under Chapter 100 to be made available as need arises³,
 - the original allocation of appropriations provided under Titles 6, 7 and 8 to be altered, depending on economic developments³,
 - any budgetary adjustments (principally to nomenclature) to be made following changes in the regulations.

¹ Report of the Committee on Budgets on the draft budget for 1977 - Rapporteur: Lord Bruce of Donington (point 47 of the explanatory statement) (Doc. 363/76) - and proposal for a modification of the draft budget (PE 46.164. pdm).

² On the other hand, there should be no facility for making the appropriations entered under Titles 6, 7 and 8 the subject of a rectifying letter after the establishment of the draft budget.

³ As far as the regulations are concerned, these amendments take the form of transfers, but in view of their extent and their importance with regard to budgetary policy, they should be decided by the budgetary authority itself under the budgetary voting procedure.

12. Such a system would have a threefold advantage:

- the current procedure would be considerably simplified¹,
- any change in the revenue required (and thus the Community VAT rate) during a financial year would be avoided,
- Parliament's budgetary powers over the most important act with financial implications of the financial year, would be preserved.

13. Meanwhile, two other aspects should perhaps be considered by the Working Party;

- It might be appropriate to initiate the procedure for fixing agricultural prices in the September preceding the marketing year
 - so as to include the foreseeable financial implications of these prices in the original draft budget. Thus prices for the 1977/78 marketing year would be fixed in September 1976 and their financial consequences included in the original budget for 1977.
- The legislative consultation procedure might possibly be applied to the fixing of prices in order to give Parliament greater influence over the actual decision and its financial implications.

¹ See the opinion of the Committee on Budgets on agricultural prices for 1977/1978 - Draftsman: Lord Bruce: 'It is not acceptable for the budgetary authority to be asked to re-examine agricultural estimates on so many occasions during the financial year (...) It is unreasonable to expect that the European Parliament should have to examine the original estimates in the preliminary draft, revised estimates in the draft general budget, letters of amendment during the budgetary procedure, preliminary draft supplementary budgets, draft supplementary budgets, letters of amendment to the draft general budget and even then have no guarantee that the final figures arrived at are definitive.'
(PE 47.903/rev., page 13)

VII. NOMENCLATURE

NOMENCLATURE

1. The ad hoc working party welcomes the fact that most of its suggestions for the 1977 budget on the improvement of nomenclature¹ have been put into practice - either because the Commission has taken them over or because Parliament has incorporated them into amendments.

2. For 1978 the working party can thus be content with more modest proposals covering:

- the presentation of the draft budget,
- the authority responsible for changes in nomenclature,
- certain improvements to nomenclature.

I. PRESENTATION OF THE DRAFT BUDGET

3. The draft budget should include the proposals for appropriations made by the Commission in the preliminary draft as Parliament has been proposing for nearly two years). This would make it much easier for Parliament to compare the figures proposed by the Commission with those accepted by the Council.

4. Naturally the column giving the preliminary draft budget appropriations would be omitted when the budget as finally adopted was published, so as not to make the final presentation too cumbersome.

II. AUTHORITY RESPONSIBLE FOR CHANGES IN THE NOMENCLATURE

5. Whereas the old Financial Regulation set out in the nomenclature in an annex and merely provided that additions could be made during the budgetary procedure, the Commission's proposal for a revised regulation stipulates that 'the budgetary nomenclature shall be decided during the budgetary procedure'²; this means that the budgetary authority becomes responsible for nomenclature and thereby acquires important powers - for example the power to budgetize expenditure by entering a new article.

¹ Doc. 97/76, pages 65 to 72 - rapporteur: Mr Cointat

² Article 15(3) (Doc. 166/76, page 10)

6. How are the respective powers of Parliament and the Council as regards nomenclature to be defined? It is difficult on this point to separate the nomenclature from the appropriations themselves, and the question of which institution should have the last word should depend on the classification of the budgetary entry concerned (compulsory or non-compulsory expenditure).

7. It is clear, however, as the working party pointed out last year¹, that 'any amendment to the nomenclature during the budget vote could prove to be complex and difficult' and that the three institutions concerned should reach more or less formal agreement on this point before opening the budgetary procedure. With this in mind, the improvements which Parliament might suggest are given below.

III. IMPROVEMENTS TO NOMENCLATURE

8. At present three suggestions can be made:

- Joint Research Centre (Chapter 33): As a result of a parliamentary amendment a new, more detailed, presentation of Chapter 33 was adopted for the 1977 budget without the functional presentation of these appropriations or of Annex I (JRC) being altered; the Commission should draw the logical conclusions from this experience quickly and propose either that it be changed or that it be repeated;
- Regional Fund (Chapter 55): During the first reading of the draft budget for 1977, both the ad hoc working party and the Committee on Budgets had proposed that these appropriations should be spread over several articles so as to make the budgetary presentation of these important measures clearer; in the end the impending review of the basic regulation on the Regional Fund led the Committee on Budgets to postpone this division. However, it should be reconsidered for the 1978 budget, on the basis of the features of the 'new' Regional Fund;
- Development Aid (Title 9): The structure of this section of the budget has been much altered over recent years and appears to lack consistency both in the breakdown of the various chapters and within the chapters themselves (particularly Chapter 96); it would therefore be a good idea for the Commission to propose a reorganization of this title for the 1978 budget.

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¹ Doc. 97/76, page 63, paragraph 6.

VIII. BUDGETARY TRANSPARENCY

BUDGETARY TRANSPARENCY

1. In 1976 the working party dealt in very general terms with the question of decentralization of the structures and activities of the Commission¹; in 1977 the Control Subcommittee of the Committee on Budgets undertook a study of the principles and problems of organization peculiar to the Commission. In these circumstances the ad hoc working party was able to concentrate its attention on questions of direct relevance to the transparency of budgetary authorization and control in connection with decentralized Community structures.

2. With reference to a list of the present structures², some questions of principle could be raised concerning:

- the creation of decentralized bodies,
 - the budgetary rules applicable to them,
- and some specific proposals made.

I. CREATION OF DECENTRALIZED BODIES

3. There is no denying the need for some decentralization of the activities and thus of the structures of the Community. This practice should not however undermine either the uniformity or the transparency of budgetary authorization and the following basic principles should be adhered to:

(a) Para-Community bodies

The Member States have - usually by means of conventions - set up several bodies that are not part of the institutional structure laid down in the Treaties of Paris and Rome³. They are more inter-governmental than Community bodies, and Parliament should insist that they be reintegrated into the institutional framework and oppose the creation of new bodies of this type.

¹Doc. 97/76, pages 70 to 79 - draftsman: Mr Gerlach

²See table in Annex I

³For example the European schools and the European University Institute in Florence.

(b) Decentralized bodies

By way of exception, the Community may establish certain special services that require some independence of planning and management. Three specific examples may be given of the type of activity that justifies relative independence on the part of the responsible body:

- the Institute for Economic Analysis and Research
- the Euratom Supply Agency
- the European Schools and the University Institute in Florence.

These bodies provide a scientific, commercial or cultural service and their integration into the administrative network of the Commission or of other institutions - is undesirable. Nevertheless they should form an integral part - especially from the point of view of the budget - of the Community structure.

(c) Bodies with strictly limited independence

The institutions - the Commission in particular - have certain tasks which, although the natural corollary to their main activities, are different from purely administrative tasks; it is therefore legitimate to entrust these activities to bodies which, although directly responsible to the Commission, have some freedom of action in their daily affairs. At present, there are many such bodies with quite disparate statutes¹; it would perhaps be advisable to define and limit their degree of independence.

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4. There is no doubt that, as a general rule applicable to the Communities as to any other administration, for the sake of uniformity and efficiency, there should be a coherent institutional structure. Exceptions to the principle of administrative uniformity should therefore be severely limited and should as far as possible follow the same pattern.

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II. BUDGETARY RULES APPLICABLE TO THESE BODIES

5. All these bodies should be financed by the general budget.

¹See the bodies listed under I and II of the Annex

6. The exceptional decentralized bodies could be financed by means of a blanket subsidy in the budget. They would draw up their own estimates within the limits of this subsidy and keep the budgetary authority fully informed. The budgetary authority would however retain the right to directly influence the breakdown of appropriations in their 'final' estimates when approving the blanket subsidy; the rules for implementing the estimates should allow for some administrative freedom and flexibility although control should be carried out on the same terms as for the general budget.

7. This system is neither necessary nor justified in the case of the bodies with strictly limited independence and the different items of expenditure should appear in the relevant chapters of the general budget - or in one or more annexes to it which would be adopted, implemented and controlled in the same way as ordinary expenditure.

III. SPECIFIC SUGGESTIONS

8. It is absolutely essential that the Commission realize the extent of the problems of budgetary transparency mentioned above and that it keep Parliament informed of its opinion on the current situation. It should also give the Assembly clear indication of whether or not it intends to put an end to the proliferation of satellite bodies and rationalize the existing structure.

9. For the time being the following practical suggestions can be made:

- a) the administrative subsidy for the University Institute in Florence should be entered in the 1978 budget - as provided for in one clause of the Convention¹;
- b) if, contrary to the principles enumerated above, a European Trade Cooperation Agency is created, Parliament should ensure that it is financed entirely from the budget along the lines proposed above for the bodies with strictly limited independence;
- c) Parliament must ensure that no new para-Community bodies are created and that services being established such as the European Monetary Cooperation Fund form part of the Community's administrative structure and of its budget.

¹See the Commission's answer to Written Question No. 605/76 by Mr Bangemann (OJ C 35/12, 11.2.1977).

LIST OF DECENTRALIZED COMMUNITY STRUCTURESI. COMMUNITY BODIES THAT ARE BUDGETIZED BUT HAVE SOME ADMINISTRATIVE AUTONOMY

1977 Budget

- Computer Centre	Item 2240	2,592,000
- SOEC	Article 264	7,250,000
- Business Cooperation Centre	Article 281	66,000
- JRC	Chapter 33	183,337,388
- Publications Office	Annex II	7,715,000

II. COMMUNITY BODIES SUBSIDIZED 100% BY THE BUDGET AND WITH SOME ADMINISTRATIVE AUTONOMY

- European Community's Institute for Economic Analysis and Research	Article 282	1,000,000
- European Centre for Vocational Training	Item 3010	2,000,000
- Foundation for the improvement of living and working conditions	Article 359	2,600,000
- Supply Agency	Article 280 & Chapter 100	598,600
- European Association for Cooperation	Article 943 & Chapter 100	2,362,000

III. PARA-COMMUNITY BODIES SUBSIDIZED OR NOT BY THE BUDGET AND WITH SOME ADMINISTRATIVE AUTONOMY

- European Schools	Article 289 & Chapter 100 (Partial subsidy)	18,968,500 ⁽¹⁾
- European University Institute in Florence	no subsidy	- ⁽²⁾

⁽¹⁾ Budget total: 23.6 m u.a. (the budget subsidy thus accounts for 66% of the total budget)

⁽²⁾ Budget: 4.5 m u.a.

IX. A DRAFT TIMETABLE FOR THE BUDGETARY PROCEDURE
BY THE RAPPORTEUR ON THE BUDGET OF THE COMMUNITIES

DRAFT TIMETABLE¹

Key dates in the financial year and the budgetary procedure	Article 203, financial regulation, Council decisions, inter-institutional agreements	Amendments to the timetable resulting from the inter-institutional agreements applied in 1976 to the 1977 budget	New proposals of the Committee on Budgets applicable to the 1978 financial year (budgetary procedure to be followed in 1977)
1. Commission's communication setting out a global appreciation of the Community's budgetary problems	before April ⁽²⁾	no change	<u>28.3</u>
2. Joint Council consideration of these problems	not specified	5.4	5.4
3. Debate in the Committee on Budgets on the subject	not specified	7.4	<u>30.3</u> (<u>19.4</u>)
4. Data from the institutions on the management accounts	1.5	the inter-institutional agreement did not take account of these two steps	1.5
5. Management accounts of the Communities	1.6		1.6
6. Transmission by the Commission to Council and Parliament of the proposed maximum rate	before 1.5	before 1.3	before 1.3 (<u>a deadline not met by the Commission of the European Communities</u>)
7. Transmission by the institutions to the Commission of their preliminary draft budgets	before 1.7	15.5 but 20.6 for Parliament	15.5 but 20.6 for Parliament
8. Transmission of the preliminary draft budget by the Commission to Council and Parliament	before 1.9	before 1.7 (in fact 17.6)	<u>20.6</u> (the agreement envisaged 1.7)

¹ These proposals are offered merely as a guide.

² Source: European Council resolution of December 1975

Key dates in the financial year and the budgetary procedure	Article 203, financial regulation, Council decisions, inter-institutional agreements	Amendments to the time-table resulting from the inter-institutional agreements applied in 1976 to the 1977 budget	New proposals of the Committee on Budgets applicable to the 1978 financial year (budgetary procedure to be followed in 1977)
<p>9. Presentation by the Commission of the preliminary draft budget to Parliament with debate</p> <p>10. A meeting between delegation from Parliament and Council on Parliament's guidelines of a political nature regarding the preliminary draft budget</p>	<p>September part-session of Parliament</p> <p>4.10</p>	<p>June or July (in fact 6.7)</p> <p>theoretically before the 10.9 (in fact the <u>22.7</u>)</p>	<p>a. meeting of the Committee on Budgets at which the Commissioner responsible will present the preliminary draft budget</p> <p>b. <u>meeting of the Committee on Budgets and perhaps also of other Committees between 20.6 and 24.6</u></p> <p>c. meetings of groups during week 27.6 to 1.7</p> <p><u>4 to the 8.7</u></p> <p><u>to be determined but apparently about the 20.7</u></p>
<p>11. Establishment of the draft budget by Council</p> <p>12. Transmission by Council to Parliament of the draft budget</p> <p>13. Presentation by Council of the draft budget in plenary session</p>	<p>5.10 (deadline for examination: 35 days from 1.9 to 5.10)</p> <p>5.10</p> <p>October session</p>	<p>before the 10.9 (in fact the <u>22.7</u>)</p> <p>10.9 (in fact the <u>6.9</u>)</p> <p>September session in fact 15.9)</p> <p>a. deadline for presentation of amendments, modifications and opinions of other Committees: 6.10</p>	<p>before the 10.9 <u>but preferably before 31.7</u></p> <p>up to 10.9 but <u>better if it were by 1.9</u></p> <p>a. <u>The Committee on Budgets and also the groups to meet during the week of 5 to 9.9</u></p> <p>14 or 15.9</p> <p>- Committee on Budgets first examination and guidelines on amendments: <u>21 and 22.9</u></p> <p><u>28.9</u></p>

Key dates in the financial year and the budgetary procedure	Article 203, financial regulation, Council decisions, inter-institutional agreements	Amendments to the timetable resulting from the inter-institutional agreements applied in 1976 to the 1977 budget	New proposals of the Committee on Budgets applicable to the 1978 financial year (budgetary procedure to be followed in 1977)
		<p>b. deadline for groups: not specifically envisaged</p> <p>c. meetings of Committee on Budgets to examine amendments, modifications and opinions and to adopt the report 7/8.10; 19/20.10</p> <p>d. debate in session: 25-26.10</p> <p>e. PDA/PDM new deadlines 26.10 at midday</p> <p>f. final meeting of the Committee on Budgets: 26.10 at 5.00 p.m.</p> <p>g. vote in plenary: 27.10</p>	<p>- Committee on Budgets (examination of PDA/PDM of the Committee on Budgets and of other Committees <u>3-4.10</u>)</p> <p><u>7.10</u></p> <p><u>17-18.10</u></p> <p><u>24-25.10</u></p> <p><u>25.10 at midday</u></p> <p><u>25.10 at 6.00 p.m.</u></p> <p><u>26.10</u></p>
14. Transmission(perhaps)to Parliament of an amending letter	no special provision	(<u>deadline not fixed</u> but in fact 19-20.10)	<u>at the latest 7.10</u>
15. Establishment of Parliament's part of the draft budget amended and modified	19.11 (deadline for examination by Parliament of the draft budget 45 days from 19.10 to 15.11)	from 10.9 to 28.10 (47 days) (in fact the 26.10)	26.10

Key dates in the financial year and the budgetary procedure	Article 203, financial regulation, Council decisions, inter-institutional agreements	Amendments to the timetable resulting from the inter-institutional agreements applied in 1976 to the 1977 budget	New proposals of the Committee on Budgets applicable to the 1978 financial year (budgetary procedure to be followed in 1977)
16. Transmission to the Council of the draft budget amended and modified by Parliament	19.11	28.10 (in fact 28.10)	to be determined (in principle the 28.10)
17. Meeting between Council and Parliament on the draft budget as amended and modified	3-4.12	before <u>20.11</u> (in fact <u>23.11</u>)	<u>at the latest the 21.11</u>
18. Council deliberation on the draft budget as amended and modified by Parliament	4.12 (Council has 15 days to examine the draft budget as modified by Parliament: from 19.11 to 4.12)	from 29.10 to <u>20.11</u> (in fact the <u>29.11</u>)	<u>at the latest the 21.11</u>
19. Transmission by Council to Parliament of the draft budget modified by Council after the first reading by Parliament	4.12	23.11 (in fact the <u>29.11</u>)	must be by <u>23.11</u>
20. Second reading of the draft budget by Parliament and adoption of budget	final deadline 19.12 (in theory, 15 days from the 4 to the 19.12)	from 23.11 to 16.12 (in fact from 29.11 to 16.12) a. deadline for presentation of new amendments before report: 30.11 b. eventual deadline for other Committees and groups: 30.11 c. first meeting of the Committee on Budgets: 1.12 d. meetings of other Committees 13.12 and 15.12	(<u>from 24.11 to 16.12</u>) at 6.00 p.m. on <u>29.11</u> - 24-25.11 (examination of the draft as modified by Council) or the 30.11 and 1.12 (indicative adoption of PDA/PDM and indicative

Key dates in the financial year and the budgetary procedure	Article 203, financial regulation, Council decisions, inter-institutional agreements	Amendments to the timetable resulting from the inter-institutional agreements applied in 1976 to the 1977 budget	New proposals of the Committee on Budgets applicable to the 1978 financial year (budgetary procedure to be followed in 1977)
		<p>e. perhaps meeting between Council and European Parliament delegation: 15.12</p> <p>f. debate in plenary session: 14.12</p> <p>g. final deadline for the presentation of eventual amendments: 10.12</p> <p>h. vote and adoption of budget: 16.12</p>	<p>adoption of the complementary report, 5 or 6.12)</p> <p>- or during meeting of the Committee on Budgets 2.12 or 7.12</p> <p>- meeting of the Committee on Budgets to adopt definitively PDA/PDM and the complementary report a few days after the meeting between Council and European Parliament delegation</p> <p>13.12</p> <p>14.12 at midday</p> <p>- perhaps a meeting of the Committee on Budgets to deal with final amendments at 6.00 p.m. on 14.12</p> <p>15.12</p>

EXPLANATORY NOTES ON THE DRAFT TIMETABLE

1. With regard to the draft timetable prefixed, some additional explanation is needed to set in perspective the proposals made at the various points in column 4.

The modifications proposed are based on the experience of past years and on judgements in regard to what it is possible to achieve taking account of the deadlines that have to be met for the preparing of files, reports and amendments, etc. in six languages.

This explanatory note is largely based on the suggestions made by Lord BRUCE in his working documents on the timetable (PE 48.125 and PE 48.330).

2. At column 4, new elements or new dates which represent a change from last year's timetable are underlined.

A series of dashes (-) are used to regroup the various new elements into successive steps which are based on the distinctions referred to in the Treaty in so far as the stages of the budgetary procedure are concerned and also preceding steps fixed by texts other than the Treaty.

1 - 3

No supplementary comments are called for on these points.

The indications at column 4 do not touch on the likelihood of a discussion in plenary session on the deliberations of the Joint Council of Ministers for Foreign Affairs and Ministers for Finance regarding the global appreciation of Community budgetary problems.

4 - 5

It must be mentioned that the management accounts were not prepared in past financial years within the deadlines set out in the Financial Regulation. Therefore, important material which would enable a better informed judgement on the coming financial year to be formed was not available to the Institutions.

6 - 7

No particular comments need to be added on these points.

Despite the fact that the Inter-institutional Agreement of 18 November 1971 envisaged the date of 1 July for the transmission of the preliminary draft budget prepared by the Commission of the European Communities, last year's experience has shown that it is possible, in fact, for the Commission to forward the text rather earlier (with the obvious exception of the section relating to the European Parliament which is approved by our Institution in the week 13-17 June).

Such earlier transmission would enable the Committee on Budgets and the other Committees to examine the preliminary draft budget of the European Communities before it is presented formally to Parliament in session.

The rapporteur proposes that as soon as the preliminary draft budget is ready, the Commissioner responsible should present it to the Committee on Budgets. It would still be presented to Parliament at the July part-session, on the basis of the following considerations:

- the reflections of a political nature on the preliminary draft budget, which the delegation of Parliament put to Council before the latter established the draft budget, were, for lack of time, prepared solely within the Committee on Budgets over recent years;
- the short debate, which followed the presentation in Parliament by the Commission of the preliminary draft budget, tended not to generate interest because the other committees concerned did not have time to prepare their reaction;
- the presentation of the preliminary draft budget provides the possibility for Parliament to give its preliminary reaction to the annual financial policy of the Communities proposed by the Commission, and, therefore, merits greater attention than it has received in recent years.

If this heightened interest is not to remain in the sphere of good intentions, it ought to be reflected in a debate which is prepared in advance.

The procedure for the presentation of the preliminary draft budget, in both the Committee on Budgets and Parliament, is explained in greater detail in the annex.

The meeting between Parliament's delegation and Council should be fixed before the summer holiday period as was the case in 1976.

This course has the advantage, despite the fact that the month of August is a holiday period, of permitting the Secretariat of the Council to proceed with the drafting of the texts to be transmitted to Parliament in September.

Using the final 10 days of July for drawing up the budget is essential if the budgetary document is to be forwarded by the beginning of September because drafting of many parts takes place after Council has deliberated.

11 - 16

In this section of the draft timetable, details of proposals for possible dates of the meetings of the Committee on Budgets are set out; these possible meetings have yet to be **approved** by the Committee on Budgets. The need to draw up a detailed timetable of this nature appears to be necessary when regard is had to the rather restricted span of time Parliament has available to it to complete the work in relation to the budget especially since many Committees and the Political Groups are involved in the examination of the annual draft budget.

When we take account of these considerations, it becomes obvious that Council must be asked to transmit the draft budget to Parliament before 1 September if at all possible.

o o o

12 (a)

It is clear that the Committee on Budgets must be in a position to prepare the debate which will take place in September on the presentation to Parliament of the draft budget established by the Council.

However, the only week available for holding a meeting which would permit of such a first examination of the draft established by Council is that which precedes the session. Normally, that week is reserved for the work of the Political Groups.

If the work of the Committee on Budgets is not to be held up, it is essential that an exception be made to that general rule, during the

budgetary period, in favour of the Committee on Budgets, Clearly, however, a meeting of the Committee on Budgets fixed for the same week as the meetings of Political Groups should take place either at the beginning or at the end of the week reserved for Political Group meetings.

o o o

The examination of the draft budget by the Committee on Budgets, before the first reading in Parliament which will take place at the special session in October will require three meetings of the Committee. Furthermore, these meetings will have to be held on dates which will enable the Committee on Budgets to examine the texts (PDA, PDM, opinions) of other committees concerned.

The dates proposed are the following: 21, 22 September; 3, 4 October and 17, 18 October. This would enable the Committee on Budgets to have a general debate on the draft budget established by Council and to define its basic guidelines in relation to the different Community policies.

These guidelines could be based on proposals by the rapporteur regarding the main masses of the budget.

It is evident that this work is essential because it will determine in a global way the attitude to be adopted by the Committee on Budgets to the draft budget.

13 (a)

Deadlines for presenting amendments, modifications and opinions of other Committees:

As Lord BRUCE has rightly stated, Committees must have a reasonable space of time within which to consider those aspects of the budget which concern them.

On the other hand, the Committee on Budgets must be able to examine the outcome of the consideration given by other Committees to the draft budget; this examination must necessarily take place in a short space of time but within the best possible conditions.

For this reason it is proposed:

- on the one hand, to ask the President of Parliament to bring forward, by reference to last year, the deadlines for the presentation of amendments, modifications, and draft opinions.

The date of 28 September could be suggested so that Committees would have 13 calendar days, that is 10 working days (between 15 and 28 September) between the presentation of the draft budget in plenary session and the proposed deadline;

- on the other hand, to hold on the 3/4 October the meeting of the Committee on Budgets at which the examination of draft amendments would commence - work which normally occupies two meetings.

It must be recalled, in this context, that the deadline fixed by Parliament in regard to the presentation of amendments and draft modifications does not have a finally binding character, since amendments and modifications can always be presented, in the normal course, up to the Tuesday of the October session (from 24 - 26) in which Parliament modifies the draft budget established by Council.

This deadline, however, is necessary. It is all the more necessary that we ensure that the great majority of amendments - which each year come to about 200 - gets to us within this time limit. If not, the technical services would remain blocked to the detriment of the arrangements for the October session devoted to the budget.

13 (b)

Deadline for the Political Groups:

Since the week which precedes Parliamentary sessions is devoted to Political Groups, it is essential that account be taken, if one wishes to draw up a complete budgetary timetable, of these meetings and, therefore, to envisage, to some extent, a deadline within which the Groups could present their amendments.

That deadline might be fixed this year for the 7 October.

For the eventual examination of Group amendments and for the completion of the examination of the other amendments and finally to adopt the report on the draft budget, the Committee on Budgets could have a meeting on 17/18 October.

The debate in plenary session could follow the outline set at points 13(d), (e), (f) and (g).

14

In accordance with the amendments proposed to the Financial Regulation, it is essential that we bring forward the date by which any amending letters

to the draft budget be transmitted.

The Commission of the European Communities should undertake not to present such amending letters after 7 October in view of the fact that the first reading of the draft budget will take place during the session (24/26 October). This is essential if one should wish that the Committee on Budgets and other interested Committees be able to undertake a serious examination of the content of such rectifying letters.

15. 16

No particular comments appear to be called for.

17 - 19

The time limits envisaged in this phase which precede the second reading by Parliament are of a particularly urgent nature. It must not be forgotten that on the basis of the Treaty Parliament has available to it, for its second reading, 15 days. On the other hand, it should have 18 days available to it in accordance with the Inter-institutional Agreement.

Last year, Council did not adhere to the Agreement and it transmitted the results of its deliberations on the draft budget as modified by Parliament only on the 29 November. This delay of 6 days seriously upset Parliament's work programme on the budget.

These factors should encourage the Committee on Budgets to point out to the President of Parliament how essential it is that Council should undertake to adjust its sessional timetable when considering its list of meetings, for the end of the year, dealing with the 1978 budget.

20

20 (a)

It ought to be possible not only for the Committee on Budgets but also for other Committees to examine the results of Council's deliberations on the draft budget as modified by Parliament.

The Committee on Budgets should also be in a position to pronounce on the matter in the knowledge of the positions adopted by the other Committees of Parliament.

It is to meet these requirements that the dates set out at paragraphs b and c of point 20 have been proposed.

The proposals contained at paragraphs (d) and (e) take up certain questions relating to the timetable and also questions of principle which appeared to be of fundamental importance to the Committee on Budgets and to its rapporteur last year.

It is a question of whether or not there should be a final meeting between Council and the delegation from Parliament before Parliament has considered and definitively adopted the budget.

The proposed timetable set out in the fourth column would enable, in the event of an affirmative answer to this question, the Committee on Budgets to pronounce solely in an indicative fashion before the meeting with Council and then to consider further after that meeting.

In view of the experience of 14 December last and of the outcome of the meeting between Council and Parliament's delegation which took place on the 15 December last, several members of the Committee on Budgets considered that a meeting with Council should not take place, particularly since the Committee on Budgets did not have time to deliberate on the results of the meeting before Parliament finally adopted the budget.

The proposed timetable shown in the fourth column would permit of a meeting of the Committee on Budgets after a meeting between Council and Parliament's delegation; that meeting would be held 2/3 days later and not immediately following the meeting with Council.

It would enable the Groups to reflect on any new element that would warrant being considered following the meeting between Council and Parliament's delegation.

In the event of the meeting between Council and Parliament's delegation being held, as is envisaged at column 4, on the 2 or the 7 December, the final meeting of the Committee on Budgets should take place either on the 7 or about the 9 December.

The ideal timetable would be the following:

- Meeting between Council and Parliament's delegation on 2 December;
- Final consideration by the Committee on Budgets on 7, 8 or 9 December.

During this space of time, the Political Groups would also be able to consider the results of the meeting with Council. It is in the light of these considerations that one should consider the proposals put forward at

point 20 (e) of the 4th column.

20 (f) (g) (h)

The timetable for the December session need not be modified in comparison with last year's timetable because the 1976 session experience was broadly satisfactory.

N O T E for the Meeting of the Ad Hoc Working Group on Certain Budgetary Problems on 10 May 1977 concerning the budgetary timetable for 1978
(drawn up by Mr Shaw)

1. Following the presentation of three working documents⁽¹⁾ the general rapporteurs for the 1977 and 1978 budgets have examined together the one or two points of divergence between the drafts and hereby submit their proposals to the Working Group.

2. In particular, it will be recalled that Lord Bruce proposed that the presentation of the preliminary draft budget should be made directly to the European Parliament in the June plenary session, thus avoiding the need for a plenary debate in the July Session. For reasons of timing it seems that the Commission will not be able to transmit all the documents in time for the June plenary. In order to ensure that the Commission reports first to Parliament or the appropriate organ, the Commissioner responsible could be asked to report to the Committee on Budgets as soon as the preliminary draft budget is finalised, or perhaps 26 May. A full dress debate should take place in the July Session on the basis of the volumes of the preliminary draft, which, by then, would have been in the hands of Parliament for some time.

3. The remaining principal point of divergence concerned the question of liaison with the other parliamentary committees. Lord Bruce suggested that the general rapporteur should chair a working group of draftsmen of other committees to achieve better information and coordination throughout the autumn.

4. In order that the already heavy procedure should not be further overburdened, it would seem to be better to limit this suggestion to advising the general rapporteur to consult informally with the other draftsmen.

5. To summarise, your draftsman proposes :

- (a) that the Chairman of the Committee on Budgets be asked to put it to Commissioner Tugendhat that the details of the preliminary draft budget be made known to the Committee on Budgets as soon as the preliminary draft budget has been adopted (perhaps on 26 May) ;

(1) PE 48.121, draft speculative timetable
PE 48.330, organisation of Parliament's work on the budgetary procedure
PE 48.678, contribution by the rapporteur on the outline timetable for the consideration of the 1978 budget.

- (b) maintenance of the July debate on the preliminary draft budget ;
- (c) general rapporteur to consult informally with draftsmen of other committees in order to improve coordination.